

## SUBCOMMITTEE NO. 4

## Agenda

Senator Mark DeSaulnier, Chair  
Senator Tom Harman  
Senator Gloria Negrete McLeod  
Senator Roderick Wright



Thursday, April 23, 2009  
9:30 a.m. or Upon Adjournment  
Room 112

### “B” Agenda

### Hearing Outcomes

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Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

## 2240 Department of Housing and Community Development

A primary objective of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The Department administers housing finance, economic development, and rehabilitation programs with emphasis on meeting the shelter needs of low-income persons and families, and other special needs groups. It also administers and implements building codes, manages mobilehome registration and titling, and enforces construction standards for mobilehomes.

The Governor proposes \$803.3 million (\$9.4 million General Fund—GF) and 595.3 positions for the department—a decrease of \$340 million (30 percent) and an increase of 1.5 positions.

The majority of the HCD's expenditures are supported by general obligation bond revenue. The budget includes approximately \$548 million (excluding administrative costs) in funding from the Housing and Emergency Shelter Trust Fund Act of 2006 (Prop 1C)—a decrease of approximately \$180 million from 2008-09 due to the pending exhaustion of the bond funds. The HCD also continues to transfer positions funded from the Emergency Shelter Trust Fund Act of 2002 (Prop 46) to Prop 1C activities as all remaining funds available under Prop 46 are projected to be awarded by the end of the current fiscal year.

The second largest revenue source is federal funds, estimated at \$178 million in 2009-10, which is about \$139 million less than 2008-09, when California received \$140 million for the Neighborhood Stabilization Program under the American Housing Rescue and Foreclosure Prevention Act of 2008 (HR 3221). Remaining expenditures of about \$77 million are covered by the GF (\$9.4 million), fees, and other miscellaneous revenues.

### ***DISCUSSION ITEMS:***

**1. Informational Item: Emergency Housing Assistance Program.** The Emergency Housing Assistance Program (EHAP) provides facility operating grants for emergency shelters, transitional housing projects, and supportive services for homeless individuals and families. Historically, the state contributed approximately 10 percent of overall funding for local homeless shelters, or the equivalent of approximately 19,000 beds according to the HCD.

**2009-10 Enacted Budget.** Contains zero EHAP funding.

**Staff Comments.** Last year, the Governor proposed a 10-percent budget-balancing reduction (BBR) of \$401,000 GF—a reduction in state local assistance equivalent to 1,900 beds. The Legislature chose to restore that cut through the budget process; however, the Governor vetoed the restoration as well as the remaining \$3.6 million in EHAP funding (effectively defunding approximately 19,000 beds for the homeless). As noted above, the enacted 2009-10 budget contains zero EHAP funding.

Staff notes that the Governor supported his veto of EHAP funding with the same boilerplate language that accompanied all of his 2008-09 Budget Act vetoes (see Text Box 1), and according to Department of Finance (DOF) staff no formal analysis was

performed to determine what costs (i.e., negative externalities), if any, might be associated with the EHAP reduction.

#### **Text Box 1**

##### **Governor's EHAP Veto Message**

*While the budget bill provides for a modest reserve in 2008-09, it fails to make the necessary statutory spending reductions and revenue increases needed to eliminate the state's structural budget deficit going forward. At the same time, constitutional requirements, federal law and court required payments drive the majority of the spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently -- and in order to further ensure that this budget remains in balance -- I am taking the difficult but necessary action reflected in this veto to further control state spending.*

According to at least one survey of former recipients of EHAP funding, the costs of cutting shelter funding are not insignificant. Housing California, an advocate for increasing the supply and variety of decent, safe, and affordable homes for homeless and low income families, estimates the following based on survey responses from 64 of the 113 shelters throughout the state who received EHAP funding in the last round:

- Conservative estimates show that more than 25,000 fewer people will be able to access emergency shelter services. These numbers include hundreds of families and thousands of children.
- 58 percent of recipients report the necessity to lay off staff, resulting in further job losses and increased demand for unemployment benefits.
- California stands to lose millions more in federal funding, as EHAP money was used by many as a match for federal resources. In each instance, the loss of one \$30,000 EHAP grant can result in the loss of hundreds of thousands in federal dollars for that organization.
- Rural areas are being particularly hard hit, as the EHAP grants received by rural counties generally account for larger portions of their emergency shelter budgets.
- Winter shelters are likely to be forced to close their doors early or not open at all.
- Nearly 20 percent of shelters will be forced to close a program and two shelters report they may have to close permanently.
- In attempts to fill operating-revenue gaps, emergency shelters are growing more dependent on less-reliable funding streams, such as private donations and local government funds (both of which are already tapped to the brink).
- All areas of the state are affected -- at least one shelter in every county lost funding.

In a recent opinion piece entitled "Cuts in homeless funds shortsighted" (see Appendix A for full text), the Sacramento Bee editorial board followed up the Bee's recent coverage of the Governor and Sacramento Mayor Kevin Johnson's response to the American River homeless encampment (which has drawn national attention due to its swelling numbers) by raising questions about the wisdom of the Governor's EHAP veto and his leadership (or lack thereof) on California's growing homelessness crisis. While quoting

homeless advocates chastened by the notion of the Governor building a “rainy day fund” when the growing numbers of homeless were already facing “a torrential downpour,” the Bee urged action:

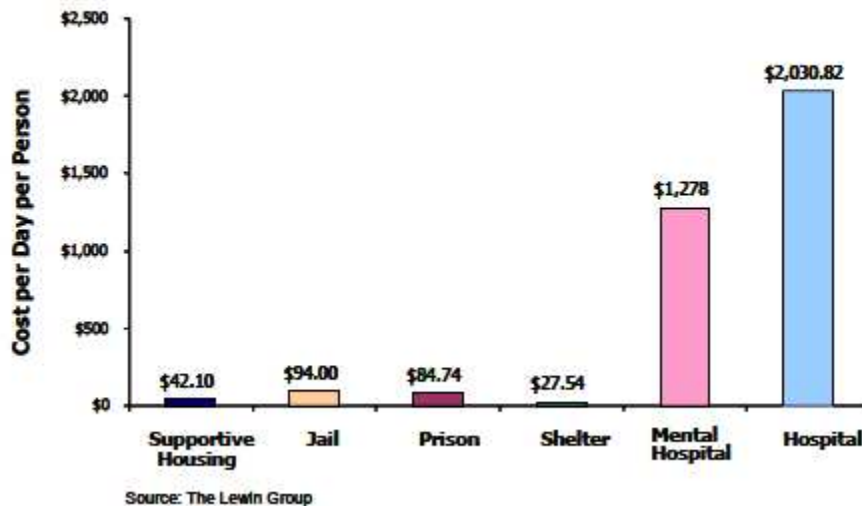
*The Governor should make this issue [homelessness] a priority, not just by showing up at homeless encampments but by doing the hard work of coordination and planning.*

Staff notes that California has no statewide homeless data management system, but, according to the Corporation for Supportive Housing, a nationwide organization with over 25 years invested in reducing homelessness, prior to the economic crisis, California faced the largest homeless population and the largest ratio of homeless people per resident in the nation (approximately 360,000 on any given night). While an updated estimate will likely not be available until early summer 2009, nearly all anecdotal evidence suggests that homelessness is on the rise in California. For example, the Sacramento-based St. John’s Shelter Program reported turning away approximately 20 women and children shelter-seekers per day prior to the economic crisis. That number has since risen to approximately 300 as the number of families suffering from rising unemployment and home foreclosures has continued to surge.

While the programmatic costs of providing certain direct services to the homeless (e.g., EHAP) are easy to measure, the true economic and budgetary cost of homelessness (and the costs avoided when homeless individuals received services) are more difficult to measure. However, various studies exist which strongly suggest the costs of services, like homeless shelters are significantly less than the alternative services that are frequently engaged when people are forced to live on the street (e.g., jail, prison, hospitals, or mental hospitals). In compiling a 2004 study commissioned by The Corporation for Supportive Housing, the Lewin Group looked at urban areas across the country, including Los Angeles and San Francisco, and compiled the following estimates of the daily costs for various services:



## San Francisco Cost Estimates



As indicated by the graph above, the cost of only one day in the hospital in San Francisco is equivalent to nearly 2 ½ months worth of shelter services. Thus, when shelter beds or supportive housing are unavailable and the needs of the homeless have to be met in other ways, the cost center shifts. Instead of taxpayers supporting programs like EHAP through the GF, the same taxpayers frequently wind up footing a larger bill (whether through taxes or “hidden” taxes like increased healthcare premiums) for more expensive programs like jails and emergency rooms. Ironically, the same type of cost-shifting in the healthcare industry was highlighted by Governor Schwarzenegger as a key argument in support of his healthcare reform plan last year.

As discussed in more detail below in agenda item #6, California is set to receive federal stimulus funding targeted at homelessness, but staff notes that the lion’s share of this funding is geared toward *preventing* homelessness and rapidly responding to the needs of those on the brink. However, none of the federal funding will be directly available to backfill for lost EHAP funding and HCD and DOF staff indicate that they are unaware of any other plans by the Administration to address the homeless issue.

In light of this, and as an ad hoc solution to a problem requiring a far larger and coordinated effort, the Committee may wish to explore the option of shifting GF from elsewhere in the HCD budget to re-establish some minimal level of EHAP funding (or support for other priority programs—see also the Employee Housing Program discussed in agenda item #2). For example, the state currently provides approximately \$530,000 to support about half of the cost to issue vouchers in the HCD Enterprise Zone (EZ) program. Statute authorizes the HCD to charge a nominal \$10 fee to support the other half of the program costs. Given the large size of the potential tax benefit represented by each EZ voucher (up to \$37,500), the Committee may wish to consider increasing the fee to \$20 in order to free up roughly half a million dollars in GF currently committed to the EZ program.

**Committee Questions.** Based on the above comments, the Committee may wish the Administration to respond to the following questions.

- This Committee was critical last year of the Governor's failure to set clear priorities in his proposed GF cuts. Did the Administration attempt to weigh the economic and/or budgetary costs of cutting EHAP funding prior to the Governor's veto last year?
- What is the current homeless rate and what is the Administration doing to address what appears to be a rising tide of homelessness in California?
- What are the pros and cons of increasing the \$10 EZ fee to \$20 in order to free up GF for other priorities?

**Staff Recommendation:** NO ACTION recommended at this time. Await the May Revise and additional information from the Administration in order to best weigh whether an increased EZ fee best meets the priorities of the Legislature.

<b>No Action.</b>
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**2. BCP-5: Employee Housing Program.** The Governor requests a suspension of the HCD's responsibilities under the Employee Housing Act by eliminating all remaining funding (\$231,000 in reimbursements supported by fee revenue) and positions (9). Additionally, the Administration proposes trailer bill language (TBL) to suspend the HCD's administrative and enforcement responsibilities when, in any given year, the department is not funded for the responsibility.

**Background.** In 1913, the Legislature created the Commission of Immigration and Housing for the primary purpose of expediting the distribution of immigrants and blending them into California's society. Following a riot in an agricultural camp, the Commission discovered substandard living conditions and inadequate housing, and recommended adoption of laws that provided for additional housing and established sanitation requirements for labor camps. In 1915, the Commission's recommendations became the Labor Camp Act, which was the law of the land until it was updated and replaced by the Employee Housing Act (Act) in 1965. The new Act transferred enforcement responsibility to the HCD and additionally regulated maintenance, use, and occupancy of mobilehomes in labor camps, authorizing adoption of regulations, and required permanent buildings to comply with the State Housing Law.

The modern Act continues to be enforced by the HCD, which assures the health, safety, and general welfare of employee housing occupants by adopting and enforcing statewide regulations for the construction, maintenance, use, and occupancy of privately owned and operated employee housing facilities providing housing for five or more employees. Department staff oversee the application of state laws, regulations and code enforcement by local agencies who elect to enforce the provisions of the Act (currently, only 10 counties—see more below), and acts as the enforcement agency when locals opt not to perform the duty themselves.

**2009-10 Enacted Budget.** Restored the \$231,000 reimbursement authority deleted in the Governor's Budget and did not implement the Governor's requested statutory changes.

**Staff Comments.** Last year the Governor proposed a 10-percent budget balancing reduction of \$85,000 GF for the Employee Housing Program, to be achieved through a reduction in investigation staff (2/3 of a position). While the Legislature recognized the need to achieve GF savings in order to address the state's fiscal crisis, it also expressed concern that investigation levels were already inadequate and further reductions would only exacerbate the problem and lead to a decline in housing conditions. Therefore, the budget conference committee adopted provisional language authorizing the HCD to adopt emergency regulations to increase fees charged to housing owners (employers) by the amount necessary to backfill the \$85,000 GF reduction. Based on fees that ranged from \$12 to \$35 (and that had not been adjusted in over two decades), the HCD estimated a 36 percent increase was necessary to achieve the level of revenue necessary to keep the program "whole."

In signing the budget, however, the Governor vetoed not only the provisional language authorizing the increased fees, but completely eliminated all remaining GF support for the program—an additional reduction of \$761,000. The Governor's action left only \$231,000 (reimbursement authority), supported by the fees, to fund the oversight of approximately 20,000 beds in 765 permitted facilities (see the table below).

<b><i>Housing and Community Development Employee Housing Program Number of Employee Housing Units - Statewide Calendar year</i></b>								
	<b><i>2007</i></b>	<b><i>2006</i></b>	<b><i>2005</i></b>	<b><i>2004</i></b>	<b><i>2003</i></b>	<b><i>2002</i></b>	<b><i>2001</i></b>	<b><i>2000</i></b>
<i>Number of beds/lots</i>	19,621	18,991	18,802	20,594	22,979	23,117	23,652	12,500
<i>Number of Permits to Operate</i>	765	775	761	810	837	1,114	1,077	694

*Data from the Employee Housing Statistical report*

Staff notes that even before last year's proposed BBR and the ultimate veto of all GF support, the Emergency Housing Program was not resourced to conduct annual inspections of all employee housing. Under existing law, the HCD is required to inspect all employee housing facilities unless the prior year inspection revealed no violations or complaints received, and, based on these requirements and limited resources, the HCD typically inspected approximately 75 percent of permitted facilities (for example, the HCD conducted 330 inspections in 2006 and found 148 violations). The Administration notes that with the elimination of roughly \$850,000 in 2008-09, the remaining \$231,000 proposed for reduction in 2009-10 would allow the HCD to conduct inspections on no more than an emergency basis and is therefore insufficient to support a credible state program. The Administration contends that the state should not charge employer-landlords a fee for such a low level of service.

As an alternative, the Governor proposes TBL to relieve the state of responsibility for the Employee Housing Program in any year when funding is not provided, with the expectation that local governments will take over all responsibility for inspections under existing statutory authority. The Administration bolsters its argument by pointing out that

counties are currently authorized to charge higher fees than the HCD for providing inspection services. However, staff notes that only 10 counties currently carry out their own inspections (Kern, Merced, Monterey, Napa, Sacramento, San Joaquin, San Mateo, Santa Cruz, Stanislaus, and Tulare), and these do not typically opt to charge higher fees. Five counties charge the same per-employee fee as the state (\$12), with the highest fee at \$20. Meanwhile, four counties charge the same permit-to-operate fee as the state (\$36), three are under \$50, and only Monterey (\$77), Tulare (\$200) and Santa Cruz (\$362) are significantly above the HCD fee level. Additionally, staff notes that, to date, the HCD reports no counties have indicated a willingness or interest in assuming responsibility for Employee Housing Program enforcement.

**LAO Comment.** The LAO offers several alternatives to the Governor's proposed elimination of state oversight of the employee housing program. These alternatives include requiring local governments to accept responsibility for employee housing enforcement, increasing permit fees to cover the full cost of the program, and/or scaling down the inspection program.

- ***Require locals to enforce employee housing requirements.*** The Governor's proposal does not require locals to take over the inspection program. The LAO points out that local governments currently have the option of providing these services, and most do not. So there is little reason to believe it is a task they wish to take on. One option would be to *require* local governments to enforce employee housing requirements. They already have the fee authority to do so, so it *would not be a reimbursable state mandate*. This is the LAO's recommendation.
- ***Increase fees.*** Another option is to increase permit fees, but according to the HCD it would require an increase to the average employer fee of approximately \$2,000 per facility in order to maintain 2007-08 funding levels. The problem with raising fees significantly is the risk of employers choosing to stop providing housing for their employees altogether. Staff notes that the HCD has existing authority to increase fees but has not done so.
- ***Further prioritize inspections.*** The final option is to scale down the number of inspections conducted each year. The HCD estimates that it conducted inspections at about 75 percent of all facilities based on existing law in 2007-08. Statute could be changed, however, to allow HCD and/or locals to focus on those facilities with more complaints or the worst conditions. This could significantly reduce the number of inspections required, and thus reduce the fee increase necessary to maintain those levels of service. More detail would be required from the HCD to determine the best way to set these priorities.

**Committee Questions.** Based on the comments above, the Committee may wish to ask the following questions:

- What evidence does the Administration have to suggest that local governments (who are also fiscally challenged at the moment) intend to step forward and take over employee housing oversight responsibilities?
- What are the potential consequences if the Governor's proposal goes forward and the locals do not fill the void? For example, what kinds of violations has the



HCD identified in the past (that might go unidentified and unaddressed if the number of employee housing inspections declines further under the Governor's proposal)?

- In arriving at the Governor's preferred option for this program, did the Administration consider any "blended" approaches (of reduced inspections and increased fees) like those suggested for consideration by the LAO? If so, what were they and in what ways were they found lacking?
- The Administration does not believe the level of oversight provided by \$231,000 justifies charging landlords a fee. In the view of the HCD, what level of inspections *would* constitute a credible state program (and therefore justify charging the fee)? For example, is the current level of approximately 75 percent of facilities inspected the low-end threshold in terms of credibility, or would 50 percent still be reasonable if the 50 percent ensured inspection of most or all of the "bad actors" (past violators)?
- What is the relative ability of employers to pay an increased fee (even if it is several hundred dollars more)? For example, if the employers are generally larger, "factory" farms, then a several-hundred dollar fee increase might be de minimus compared to their revenues.

**Staff Recommendation:** HOLD OPEN pending additional information from the Administration on the comments and questions above.

**Action: Held Open.**

**3. Informational Item: Office of Migrant Services (OMS) Update.** The purpose of the OMS program is to provide safe, decent, and affordable seasonal rental housing and support services for migrant farmworker families during the peak harvest season. As displayed in the table below, the GF provides two-thirds of the funding for the 24 facilities operated by the state, and tenant rent pays the rest.

#### OMS FUNDING

Dollars in millions

	2004-05	2005-06	2006-07*	2007-08	2008-09	2009-10
GF	5.3	5.3	8.7	6.3	6.0	5.6
FF	0.6	0.5	0.6	-	1.8	1.8
Rents	3.1	3.0	2.9	3.0	3.2	3.5
Totals	9.0	8.8	12.2	9.3	11.0	10.9

\* Includes a one-time augmentation of \$2.4 in the General Fund

**2009-10 Enacted Budget.** Sustained the Governor's 2008-09 veto (equivalent to a 10-percent reduction – \$687,000 GF).

**Background.** Last year, as part of his 10-percent, across-the-board reductions, the Governor targeted the OMS program for a fiscal year 2008-09 reduction of \$343,000 GF (with a full-year value of \$687,000 ongoing). So as to create the least disruption to the program, the HCD proposed to achieve the GF savings by increasing rents by \$2 per-

day (over two years) and relinquishing operational control over the Firebaugh OMS center in Fresno County.

Firebaugh is unique in that the local housing authority owns both the land and the building (in all other cases the state owns the building), and, therefore, the Administration proposed defunding the centers' operations because the state would not incur closure costs (e.g. demolition). The HCD noted that this plan boasted at least two additional benefits:

1. Firebaugh could remain open because the HCD believed the local housing authority would gain permission from United State Department of Agriculture Rural Development Office (USDA-RD) to fund operations out of its reserves.
2. Combined with the \$500,000 in additional revenue generated by phasing-in a \$2 per-day rent increase over two fiscal years (beginning July 2008), ending state support of Firebaugh (approximately \$200,000 annually) would avoid closing at least two centers that it would otherwise be necessary to shutter in order to achieve commensurate savings.

Notwithstanding the merits of this plan, the Legislature rejected the Governor's 2008-09 reduction because it did not wish to risk losing housing critical to California's farmworkers (and, by extension, the employers who count on their labor). However, as noted above, the Governor vetoed the \$343,000 and built the ongoing \$687,000 reduction into his 2009-10 budget.

**Staff Comments.** According to the Housing Authority of the City and County of Fresno (the Fresno Authority), the use of USDA-RD Replacement Reserve funds for operations provides only a short-term fix to the Governor's defunding of the Firebaugh OMS center. The existing reserve balance of approximately \$319,000 will be exhausted in a little more than a year's time (fiscal year 2010-11), and after that the Fresno Authority will face some difficult decisions about the Firebaugh OMS center. The Fresno Authority provided the following in response to staff questions about the impact of the Governor's 2008-09 OMS veto on the Firebaugh center:

1. *Impact on operations: We have continued to operate the facility based on the rents collected. For the 2008 season, the rents totaled \$183,259. During the off-season, RD Replacement Reserve funds are used to maintain the facility. However, the future viability of the center is in question. We have a balance of \$318,745 in Replacement Reserve funds, and eventually that will be expended. To remain viable, we will need to consider alternatives such as H2A workers, contracting with a local labor contractor or admitting single workers, as well as using the center year-round to be viable. There may be additional costs to retrofit the apartments for year-round use. The HCD administers the Joe Serna Farmworker Housing Grant Program and USDA-RD may be another source of construction/rehabilitation funding. Single worker use and year-round operation may eliminate housing for migrant farmworker families. Lastly, the RD grant lien restricts the property to use for agricultural workers.*
2. *Lessons Learned: As the Administration contemplates the possibility of turning over more OMS centers to the local jurisdictions to administer,*

*consideration must be made in ensuring the sustainability of this affordable housing for the migrant farmworker families. Due to the seasonal nature of the work, the migrant farmworker families are not in a position to enter into conventional lease agreements for rental housing that comes with a standard 12-month commitment, and motel living is not a cost-effective option for them. As previously stated, single workers and year-round operation may eliminate housing for migrant farmworker families. With an increase in school enrollment during the season, these families provide a source of revenue for the local schools that their children attend. Housing single workers will have a serious negative impact on the schools.*

As noted above, the OMS centers are absolutely reliant upon GF under the current funding model because (even with the planned \$2/day increase) rents are kept well below market value. Thus, as the Fresno Authority indicates, the Firebaugh center will need to consider fundamental changes to its mode of operations absent a restoration of GF or identification of an alternative funding source. As pressure on the state's GF continues to mount amid the ongoing fiscal crisis, the Administration has begun to talk of turning over more OMS centers to local agencies, meaning that the issues facing Fresno County (outlined above) could soon be confronting counties up and down the state.

**Committee Questions.** Based on the comments above, the Committee may wish to ask the following questions:

- How does the Administration respond to some of the problems/trade-offs highlighted by the Fresno Authority (e.g., the loss of migrant farmworker housing for families if finances force locals to convert OMS centers to single-worker or year-round operation)?
- What is the Administration's long-term plan for the OMS Program? For example, how many additional centers could be turned over to locals and how many migrant farmworker families would be affected?
- What does the agricultural industry have to say about the OMS reductions, and has the Administration discussed the issue of creating an alternative fund source (perhaps in cooperation with the industry)?

**Staff Recommendation:** NO ACTION recommended at this time. Await additional information from the Administration on the comments and questions above.

<b>No Action.</b>
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**4. BCP-7: Codes and Standards Fee Increase – Mobilehome Parks.** The Governor proposes the following changes to the HCD's Codes and Standards Program (including TBL) in order to address a steady decline in revenues from several sources over the past several years:

- Increase the registration fee for manufactured housing, mobilehomes, and commercial modulars from \$11 to \$23;
- Increase the permit-to-operate fee for mobilehome parks from \$25 to \$140;
- Increase the per-lot fee in mobilehome parks from \$2 to \$7;

- Provide a \$2.1 million loan from the Mobilehome Park Purchase Fund (Purchase Fund) to the Mobilehome-Manufactured Home Revolving Fund (Mobilehome Fund);
- Reduce programs supported by the Mobilehome Fund by \$4.1 million and 18.6 positions;
- Reduce programs supported by the Mobilehome Park Revolving Fund (Park Fund) by \$122,000 and 3.4 positions.

**Background.** The Mobilehome and Park funds support the HCD's efforts to protect the health, safety, and consumer rights of Californians who live in mobilehome parks or who buy, sell, or occupy factory-built housing, manufactured housing, or mobilehomes. For example, the HCD enforces the Mobilehome Parks Act (MPA) and adopts state regulations for construction, use, maintenance, and occupancy of mobilehomes (now more commonly known as "manufactured housing"). Department personnel periodically inspect parks, issue annual permits to operate, construct, expand, or alter parks, and investigate complaints and violations of the MPA. Similarly, the HCD maintains and enforces regulations for factory-built housing to ensure that concealed parts or processes of buildings and building components that cannot be inspected before installation meet certain health and safety standards. Additionally, the HCD ensures that dealers in the above housing products are reputable and that all such products are properly titled and licensed.

**2009-10 Enacted Budget.** Included the proposed expenditure adjustments, but not the TBL adjusting fee levels.

**Staff Comments.** According to the Administration, the current misalignment of revenues and expenditures in the Mobilehome and Park funds is explained by two primary factors:

- (1) A structural gap between expenditures and revenues that emerged over the last few years as a fee structure—that is over 70 years old in some instances—failed to produce adequate revenue to maintain service levels in the face of rising costs (e.g., gas for inspectors in the field).
- (2) A recession that resulted in a sudden 20 percent drop in fee-for-service revenues as fewer homes were built, sold, installed, transferred, remodeled, and repaired. Meanwhile, as home and park owners continue to invest less in maintenance, the HCD has experienced a rise in complaints (a workload whose redress does not generate additional revenue for the department). For example, in 2007 alone, the number of complaint inspections doubled.

In order to address a structural deficit that would otherwise see the Mobilehome and Park funds "in the red" before the end of the current fiscal year, the Administration has proposed a multi-prong solution of increased revenues and decreased expenditures, combined with short-term loans from other funds to smooth out the 2009-10 fiscal year since the fee increases would not take effect until mid-year.

### Reductions

The proposal calls for a total reduction of 22 positions. According to the HCD, these cuts will result in reduced training and monitoring of local jurisdictions for compliance with statutes and regulations, fewer updates of local jurisdictions as program or code changes are implemented, delayed response to incorrect local interpretation and/or

implementation of building standards, and fewer inspections of manufacturers and dealers of manufactured housing. However, the HCD believes this proposal would still provide the resources necessary to maintain adequate baseline services for its constituents.

Staff notes that it is unclear what material difference these reduced service levels would make in terms of the health and safety of California's citizenry. Although the Administration expects the proposed decrease is only temporary (until the economy recovers and fee-for-service revenues can support more robust state operations again), the Committee may wish the HCD to further clarify the anticipated impact of the service reductions, and explain why the Administration did not simply propose a marginally higher fee increase. For example, the HCD notes that 53 inspectors are currently responsible for enforcement at 4,112 mobilehome parks, containing 321,056 spaces, statewide; however, the Governor's proposal would eliminate 6 of these inspectors. The proposed reduction will mean that the remaining inspectors are spread that much more thinly across California's vast tracts, and the HCD should clarify what this will mean in terms of quantifiable performance metrics.

#### Fee Increases

The proposal calls for an increase in three fees:

- (1) Increase the registration fee for manufactured housing, mobilehomes, and commercial modulars from \$11 to \$23. Unlike the Department of Motor Vehicles initial base registration and annual renewal fees (which increased from \$11 to \$31 since 1967), this fee has not increased since 1967.
- (2) Increase the permit-to-operate fee for mobilehome parks from \$25 to \$140. Other than fees for service, this is the key source of revenue for the Mobilehome Parks Program and has not been adjusted since 1965 (although it was originally set at \$25 in 1931 and then briefly lowered from 1961 to 1965 as a per-lot fee was instituted).
- (3) Increase the per-lot fee in mobilehome parks from \$2 to \$7. The current level was set in 1973.

Staff notes that, as displayed in Figure 1 below, the proposed fee levels are lower, and in the case of the registration fee, significantly lower, than the current fees adjusted by the Consumer Price Index (CPI).

**Figure 1**

<b>Fee</b>	<b>Last Adjusted</b>	<b>Current</b>	<b>CPI Adjusted</b>	<b>Proposed</b>
<b>Registration</b>	1967	\$11	\$70	\$23
<b>Permit-to-Operate (Mobilehome Park)</b>	1965*	\$25	\$168	\$140
<b>Per-Lot (Mobilehome Park)</b>	1973	\$2	\$10	\$7

\*If CPI adjusted for its 1931 buying-power (when it was originally set), the permit-to-operate fee would be \$349 today.

The Committee may wish the Administration to explain its rationale for the proposed fee levels, particularly as they compare to the CPI adjusted levels, and to explain why the

proposed TBL does not include automatic indexing so that fee levels do not stagnate, leaving the associated programs under-resourced again in the near future. Additionally, staff notes that, in evaluating the near-term solvency of the Mobilehome and Park funds, the Administration assumes revenues will begin increasing again by 5 percent annually beginning in 2010-11; however, this may be overly optimistic. Given the relatively conservative approach the Administration has taken to raising fees (relative to the higher levels suggested by the CPI), the Committee may wish to inquire as to why a similarly circumspect approach was not taken with regard to out-year revenue estimates (e.g., a zero or negative growth assumption over the next several years would not seem unreasonable given the current state of the economy).

### Loans

Because the proposed fee increases likely cannot be implemented until January 2010, in order to avoid devastating cuts to the program, loans (from other HCD special funds) are necessary as a “bridge” during the first half of the 2009-10 fiscal year. Based on the Administration’s projections, these loans would be fully repaid by 2012-13; however, as noted above, this projection relies on revenue estimates that may be overly optimistic.

The solution also includes a “one-time acceleration of revenues due to an accounting change.” Funds paid to HCD that require time to process, investigate, or review prior to clearing are placed in the “Uncleared Collections Account.” When the investigation clears the funds or when funds are processed, they are either returned, or deposited in the appropriate fund. For all funds in the Uncleared Collections Account at present, those funds will be counted toward the Mobilehome Fund at one time for approximately \$2 million in funding for 2008-09. In the future, however, all funds will be accounted for in the fiscal year they are cleared.

**Committee Questions.** Based on the comments above, the Committee may wish to ask the following questions:

- How will the proposed staffing reductions affect the health and safety of Californians (particularly with fewer inspectors available)? Please provide some examples of workload the HCD is currently unable to address. Is there a backlog? If so, will it grow under the proposed reductions, and what are the projections for the near-term?
- How did the Administration arrive at the fee levels proposed (as opposed to, for example, the CPI-adjusted levels indicated in the staff comments)? What are the pros and cons of raising fees to the levels suggested by the CPI? Why not permanently index the fees and/or allow the HCD to set all fees through regulation (i.e., eliminate statute governing registration, permit-to-operate, and per-lot fees)?
- What is the Administration’s justification for assuming revenue growth of 5 percent annually in the out-years? Does not this seem overly optimistic given the state’s current economic condition?

**Staff Recommendation:** HOLD OPEN pending additional information from the Administration on the comments and questions above.

<b>Action: Held Open.</b>
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**5. FL-2: Reappropriation of Housing and Emergency Shelter Trust Fund Act of 2006 (Prop 1C) Local Assistance and Extension of Liquidation Period.** The HCD requests a reappropriation of up to \$335 million of any unencumbered balance in local assistance funding in the 2008 Budget Act for the Infill Incentive Grant Program (Infill), Transit-Oriented Development Program (TOD), and the Building Equity and Growth in Neighborhoods Program (BEGIN). Consistent with the original appropriations, the HCD requests the reappropriations contain provisional language providing for a five-year liquidation period.

**Background.** Prop 1C provided for a general obligation bond issuance not to exceed \$2.85 billion. The Governor's Budget proposed to award \$548 million in Prop 1C revenues in 2009-10, on top of the \$728 million estimated to be expended in the current fiscal year and the \$973 million awarded in FY 2006-07; however, as noted below, delays caused by the economic downturn and the state's deteriorating fiscal condition have slowed projected expenditures. The table below is a point-in-time estimate of Prop 1C expenditures by category for all HCD-administered programs. Each expenditure is identified as continuously appropriated or requiring a Budget Act appropriation, and dollars are in thousands and exclude administrative costs which have consistently averaged less than five percent of all program expenditures.

Proposition 1C Category	Anticipated 2008-09 Award Schedule	Projects with Commitments Prior to 12/17/2008	Projects Pending Commitments	Original Proposed 2009-10 Allocations	Approp Type
CalHome	\$106,000	\$75,000	\$31,000	\$50,000	Continuous
CA Homeownership Program (BEGIN)	40,000	11,000	29,000	40,000	Budget Act
Self-Help Housing Program	3,000	2,000	1,000	3,000	Continuous
Affordable Housing Innovation Fund	34,000	-	16,000	61,000	Budget Act
General	120,000	18,000	67,000	-	Continuous
Supportive Housing	50,000	20,000	30,000	83,000	Continuous
Homeless Youths	20,000	1,000	19,000	19,000	Continuous
Serna Farmworker Loans/Grants	40,000	10,000	10,000	31,000	Continuous
Emergency Housing Assistance	20,000	-	20,000	27,000	Continuous
Infill Incentive Grants	200,000	-	200,000	190,000	Budget Act
Transit Oriented Development	95,000	-	95,000	34,000	Budget Act
Housing Urban-Suburban and Rural Parks	0	-	200,000	10,000	Budget Act
<b>TOTAL</b>	<b>\$728,000</b>	<b>\$137,000</b>	<b>\$518,000</b>		

Regarding the above, the HCD notes the following:

*Of the \$728 million awards anticipated for 2008-09, \$137 million in commitments were processed prior to December 17, 2008. While program readiness and HCD's ability to process is on schedule, \$518 million cannot be committed due to*

*the constraint imposed by BL 09-09 [the PMIB freeze discussed below]; \$73 million will be deferred to budget year. With the exception of TOD, Infill, and BEGIN, all funds are continuously appropriated, therefore, HCD will not have an authority issue if these awards are postponed. For TOD, Infill, and BEGIN, we have submitted 2009-10 Finance Letter #1 that requests a reappropriation of any unobligated funds from the 2008-09 to 2009-10.*

**Staff Comments.** According to the Administration, this request is necessary due to the delays caused by the Pooled Money Investment Board's (PMIB) December 17, 2008, decision to freeze all disbursements of AB 55 loans. The PMIB took the action to preserve necessary cash resources to pay for the day-to-day operational needs of the state. Although the PMIB released \$500 million in PMIB loans subsequent to the successful bond sale of March 25, 2009, the \$148.6 million released to the HCD (\$83.3 million for Proposition 46 and \$65.3 million for Prop 1C) does not ensure that the HCD will have ample funds available to fulfill the award levels contemplated in the original appropriations. Therefore, staff has no concerns with this proposal at this time.

**Staff Recommendation:** APPROVE the request.

**VOTE:**

<b>Action: Approved the request on a 3–0 vote (Harman absent).</b>
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**6. FL-1: American Recovery and Reinvestment Act of 2009 (ARRA).** The HCD estimates the state may be eligible to receive various ARRA funding on a one-time basis only, and requests an augmentation in federal expenditure authority of \$129 million in local assistance for fiscal year 2009-10. The funding would be allocated as follows:

- |   |                |
|---|----------------|
| • Community Development Block Grant (CDBG)  | \$10.7 million |
| • Homeless Prevention and Rapid Re-Housing Program (HPRP)<br>via the Federal Emergency Shelter Grant (FESG) | \$44.5 million |
| • Neighborhood Stabilization Program (NSP)  | \$74.0 million |

The HCD notes that California will have to compete for NSP funding; therefore, the \$74 million is an estimate only.

**Background.** The CDBG and NSP are existing programs. The FESG is an existing program; however, as discussed below, there are important differences between the FESG program and the new HPRP program. The HCD indicates the requested augmentations would be administered under the existing United State Department of Housing and Urban Development (HUD) guidelines and criteria. The program descriptions are as follows:

- **CDBG** – The CDBG Program is designed to create or retain jobs for low-income workers in rural areas by providing grants of up to \$2.5 million for eligible cities and counties to lend to identified businesses, or use for infrastructure improvements necessary to accommodate the creation, expansion, or retention of identified businesses.



- **FESG** – Through the FESG, the HCD funds emergency shelter providers throughout the state who do not receive shelter funds directly from HUD. Eligible activities include facility maintenance, operating costs, and rent; essential services such as transportation, life skills, legal aid, and counseling; used to move the homeless into permanent housing; and transition to independent living. Renovation and Rehabilitation funds are also available.
- **NSP** – The Housing and Economic Recovery Act of 2008 (HERA) authorized \$3.9 billion nationwide in funds to state and local governments to purchase abandoned and foreclosed homes and residential property. California received \$529.6 million, with most of it provided directly to cities and counties, and \$146 million allocated to the state program, to be allocated by the HCD. The funds can be used to:
  - Purchase and rehabilitate homes to sell, rent or redevelop
  - Create land banks for homes that have been foreclosed upon
  - Demolish blighted structures
  - Redevelop demolished or vacant properties
  - Establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties

Homes that are purchased with the NSP funds must be sold or rented to low or moderate income families.

ARRA provides \$2 billion for a national competitive NSP program rather than a formula-based allocation of funds.

**Staff Comments.** Generally, the implementing federal stimulus legislation generally anticipates the use of existing programs (or program models) in order for the state's to quickly and efficiently disperse these funds; however, there are some changes in the ARRA-funded programs and the HCD estimates awards would be made throughout the summer of 2009 as follows:

- **CDBG** – Annually, CDBG awards are oversubscribed by 2:1, so the HCD believes there is capacity to use all of the \$10.7 million (approximately 20 awards at \$500,000 each). Contracts last for five years from execution through closeout and monitoring, and, based on past experience, the HCD anticipates it will require no more than 4 percent for departmental administrative functions. The CDBG requires a state match for the first two percent (\$213,000) of the award amount (\$10.7 million), and in the past the HCD has used GF. However, for this allocation, federal dollars will be matched with other qualifying activities as allowed by HUD regulations.
- **FESG** – These funds are for the HPRP. The purpose of the HPRP is to fund homeless prevention activities for homeless persons and “persons at risk” of homelessness. More specifically, the HPRP funds are available for financial assistance, including short-term rental assistance (up to 3 months) and medium-term rental assistance (up to 18 months), security deposits, utility deposits, utility payments, moving costs, and hotel/motel vouchers; and housing relocation and stabilization services, including case management, outreach, housing search and placement, legal services, and credit repair. In contrast, the existing FESG program funds renovation, rehabilitation, or conversion of a building to a shelter; essential services (limited to 30% of grant, can be waived); operations of

homeless shelters (staff salaries for operations management limited to 10% of grant); and homelessness prevention , including short-term mortgage /rent, short-term utilities, security deposits, first month's rent, landlord-tenant mediation, tenant legal services (limited by law to 30% of grant).

- **NSP** – In contrast to the first funding provided through the HERA, the ARRA-funded NSP is competitive. Based on prior allocations, the HCD estimates the state could receive \$74 million which would be distributed among approximately 30 contracts statewide. The NSP allows up to ten percent of the award to be used for administration, of which the HCD does not anticipate to exceed more than 5 percent. Any remaining allocation would go to qualifying local jurisdictions and non-profits.

Staff notes that not all federal guidelines for the above programs are complete, and so the Committee may want the HCD to return at a later date with an update on whether or how these guidelines affect the HCD's ability to implement the programs as proposed (particularly with respect to meeting all federal oversight requirements). Similarly, because the program is competitive, the Committee may desire the Administration to notify the Legislature on the final amount of NSP funding received. (Although a larger than anticipated amount would likely trigger a section letter, a lower amount would not.) Finally, the Committee may wish to inquire of the HCD regarding other pots of ARRA funding that could be used to benefit HCD programs. For example, \$100 million has been made available through the Emergency Food and Shelter Program and the California Emergency Management Agency (CalEMA) has been made the state lead for implementation, but it is not clear whether or not the HCD might have a role to play, particularly if the homeless crisis described earlier qualifies as an "emergency" under the federal law.

**Committee Questions.** Based on the above comments, the Committee may wish to ask the following questions:

- What uncertainties still exist relative to federal guidelines for the programs identified above? How, if at all, will the HCD be affected by the intense federal scrutiny of ARRA implementation?
- Given that the NSP is competitive, does the Administration object to including provisional language that would trigger notification to the Legislature if the amount awarded to the state is significantly below the \$74 million estimated?
- What, if any, discussions has the HCD had with CalEMA regarding the Emergency Food and Shelter Program? Is there potential funding available to assist the HCD's constituents?

**Staff Recommendation:** HOLD OPEN.

<b>Action:</b> <i>Held Open.</i>
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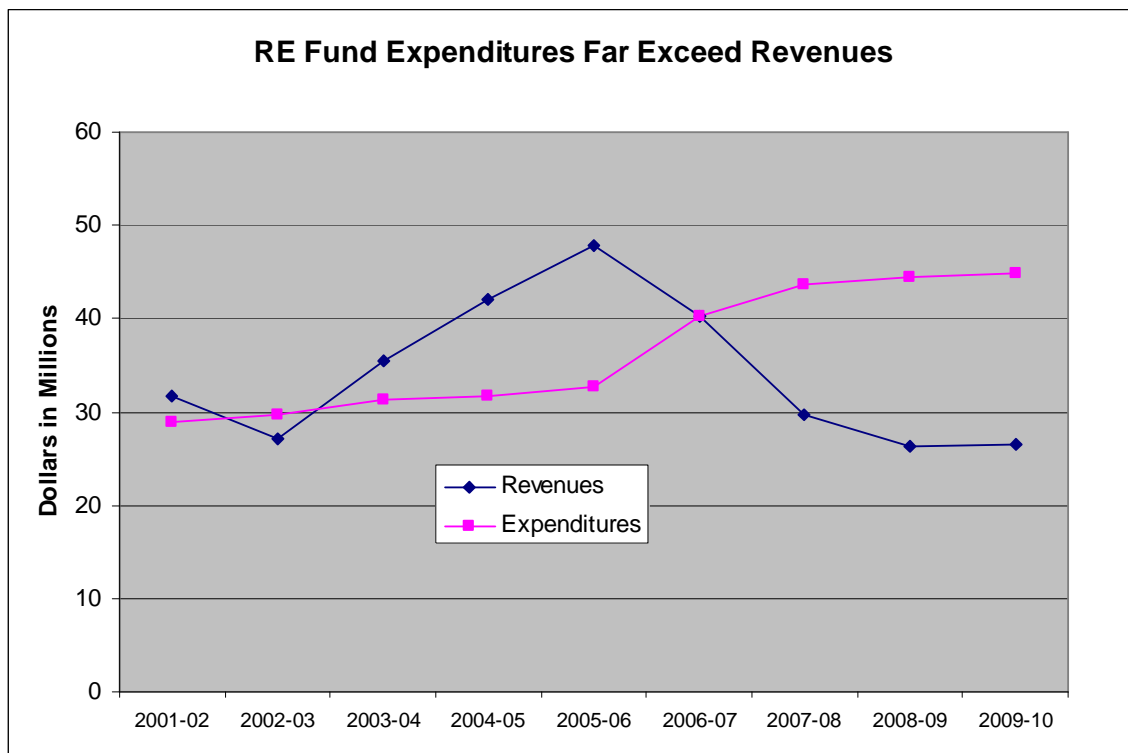
## 2320 Department of Real Estate

A primary objective of the Department of Real Estate (DRE) is to protect the public in real estate transactions and provide related services to the real estate industry.

The Governor proposes \$45.3 million (no General Fund) in total expenditures and 336 positions for the Department – an increase of approximately \$600,000 and zero positions.

### ***DISCUSSION ITEM:***

**1. Informational Item: Real Estate Fund Condition.** The Real Estate Fund (RE Fund) is the DRE's main source of support. The RE Fund derives most of its revenue from real estate license and application fees as well as fees charged to those wishing to subdivide lands. These fees account for about 90 percent of the estimated \$27 million in revenues projected in the 2009-10 Governor's Budget. Due primarily to the downturn in the economy and the national mortgage crisis, the real estate business has suffered, the above fees have generated less and less revenue, and a structural deficit has emerged in recent years as DRE spending has remained relatively constant (see Figure 1 below). Barring corrective action, the LAO estimates that the RE Fund would end the 2009-10 fiscal year with a \$500,000 reserve and would become insolvent shortly thereafter.



Statute sets a cap on DRE fees, but permits the department to adjust them through regulation under the prescribed ceiling. However, the DRE must decrease fees anytime the RE Fund balance exceeds 150 percent of the following year's anticipated expenditures, and Section 10226.5 of the Business and Professions Code (Chapter 232, statutes of 1997, AB 447, Kuykendall), contains a "poison pill," that requires DRE to

lower fee levels (to 1982 levels) any time funds are transferred from the RE Fund to the GF. This latter provision was triggered in 2003 when the fund enjoyed a considerable reserve and was able to loan \$10.7 to the GF (to address a previous fiscal crisis). Staff notes that despite this reduction, RE Fund revenues continued to increase during the real estate boom of 2002 to 2006 due in large part to the record high volumes of examination and license applicants.

**Staff Comments.** The DRE has notified staff of its intent to increase fees to the statutory maximum effective July 1, 2009. Some highlights of the proposed fee increases are detailed below in Figure 2 (with the pre-“poison pill” (2002) levels shown for the sake of comparison).

**Figure 2**

<b>Fee</b>	<b>Current</b>	<b>Proposed (Statutory Max)</b>	<b>2002 (Pre-Poison Pill)</b>
<b>4-year Broker’s License</b>	\$165	\$300	\$218
<b>4-year Salesperson’s License</b>	\$120	\$245	\$129
<b>Broker’s Examination</b>	\$50	\$95	\$95
<b>Salesperson’s Examination</b>	\$25	\$60	\$60

After accounting for these fee increases, the DRE projects a revenue stream averaging \$37 million annually from 2010-11 through 2013-14, with expenditures averaging \$45 million (i.e., the DRE would still be spending approximately 25 percent more than it is taking in). Based on these projections (which assume no immediate turnaround in the real estate market), the RE Fund would become insolvent in 2012-13 without repayment of the outstanding \$10.7 loan to the GF, and would still face insolvency one year later even with the loan repayment. Thus, the planned fee increase is necessary, but not adequate, to fix the RE Fund condition, and the Legislature should begin considering other options to address the structural deficit.

Among the options available to the Legislature are the following:

- **Adjust the existing statutory fee framework to “smooth” DRE revenues.**  
The DRE is currently conducting a fee study to better identify the true costs of the services it provides, and the Legislature will likely want to wait for the outcomes of this study before taking any action. However, the Legislature can certainly begin weighing implementation of one or more of the following in order to smooth RE Fund revenues over time (so that the fund reserve peaks are not quite so high and troughs are not quite so low):
  - Re-align statutory fee limits with the true “cost of business” (which could include eliminating statutory fee limits)
  - Index fee increases by the CPI or some similar factor if the costs of business are driven by identifiable/measurable causes like inflation

- Eliminate or modify poison pill language so that fees are not decreased so dramatically in good times (staff notes that it has been more than 10 years since the fee “floor” was frozen at 1982 levels and it may be time to “raise the floor”)
- **Reduce DRE expenditures.** As depicted in Figure 2 (above) the DRE received significant augmentations during “flush” years, but has yet to be reduced by a single position in the face of the current economic downturn. As discussed in the next agenda item, the DRE has shifted resources out of client services and into enforcement as growth in the licensee population has stagnated and real estate fraud has increased; however, the Legislature may still wish to consider judicious reductions if the DRE cannot clearly justify workload and generate the revenues to support it.

**Committee Questions.** Based on the comments above, the Committee may wish to ask the following questions:

- When does the DRE anticipate the current fee study will be completed, and what does the department expect to learn from it? Will the full results be shared with the Legislature?
- Since the proposed fee increase will not completely solve the structural deficit, what other options is the Administration weighing? For example, are additional fee increases and/or expenditure reductions on the table? When can we expect to receive a final proposal?

**Staff Recommendation:** NO ACTION recommended at this time.

<b><i>No Action.</i></b>
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**2. Informational Item: Workload Shift.** As noted above, the economic downturn has resulted in a dramatic decrease in applications for real estate licenses and examinations (e.g., the overall licensee population peaked in November 2007), yet the 2009-10 Governor’s Budget reflects no change in departmental personnel or funding levels. While staff notes that the DRE has made some minor adjustments at the margin (see more below), based on the fact that DRE expenditures grew by approximately 50 percent over the past five years, the Committee may wish to request the department to provide further justification for the ongoing level of expenditures. For example, the Legislature approved 4.0 positions in 2006-07 to address an increase in the number and complexity of subdivision and timeshare filings, but the DRE indicates this workload has since decreased to below normal levels. The following is a brief summary of adjustments implemented thus far by the department:

Workforce Adjustments Implemented by the DRE

- Redirection of one-half of all Examination and Original Licensing staff as follows:
  - Internal redirection to the Licensing Call Center, business support section, renewals, Internet email inquiry project.

- Redirection of two positions to consumer outreach – one to support the executive appointment of the Consumer and Industry Outreach Liaison.
- Redirection of one position for the creation of the Information Security Officer.
- Redirection of one position to Accounting to ensure timely payment of invoices and management of accounts payable workload.
- Termination of all 3 retired annuitants
- Termination of all 17 student assistants
- Separation of all 19 seasonal clerks
- Reduction in examination proctors by 60% - down to 20 proctors statewide
- Redirection of all Examinations overtime funding to the Enforcement and Administration programs
- Redirection of 20 percent of all criminal background cases to the Subdivisions Deputy
- Redirection of one position to Administration to support Legislation and increased mortgage lending activities
- Redirection of one position in the Legal section reclassified to an attorney position supporting general law workload and subdivision issues streamlining the prosecutorial division workload
- Redirection of one position to Enforcement to answer consumer calls and complaints on mortgage and loan modification questions

**Committee Questions.** Based on the above, the Committee may wish to ask the following questions:

- Over the last several years, the DRE was approved to implement several automation projects to increase its efficiency in delivery of services. Between these increased efficiencies and the reduced demand for client services (e.g., examinations), why is it necessary for the DRE to maintain the same level of staffing?
- Where the DRE has redirected staff, can the department provide more thorough documentation (data) of an increase in workload? Is the DRE using these staff to address an increase in the volume of existing workload, or is the DRE redirecting to expand its efforts into workload that it did not previously address?

**Staff Recommendation:** NO ACTION recommended at this time. Request the DRE to continue working with staff to provide justification for existing authorizations.

<b>No Action.</b>
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**3. BCP-2: Sacramento Headquarters Office Relocation.** The DRE requests a one-time augmentation in the amount of \$1 million (one-time) to partially cover the estimated costs (\$1.3 to \$1.5 million) to relocate and consolidate its downtown Sacramento Headquarters Office and Examination Center at a new location. The requested funds would not only pay for moving expenses, but telephone and data expenses, supplies, and new modular furniture (estimated at \$1 million).

**Background.** The DRE currently pays \$938,000 per year for the existing facilities, which it has occupied for over 20 years; however, the department has the following concerns with the current space that it believes necessitate the move to a new location:

- *Construction, health and safety concerns, and deterioration problems are prevalent throughout the facilities. Some examples include a chair working its way through the flooring on the second floor, file storage weight concerns also on second floor, and flooding through low spots in offices on first floor.*
- *Americans with Disability Act (ADA) compliance issues exist with the present facility and adjacent handicapped parking. Deliveries are unloaded in the unevenly graded alley behind the building where handicapped parking and pedestrian traffic is adversely affected.*
- *Both the Headquarters Office and the Examination Facility lack adequate space.*
- *Front counter interview rooms do not exist and are needed to conduct licensee corrective interviews or take consumer complaints. Today such sensitive conversations take place in public exposing confidential, personal, and financial information to anyone present at the front counter.*
- *Building security system and access doors are unreliable. No security cameras in office space or examination center.*
- *Sewer conditions and issues are prevalent; open bubbling sewer vents in alley behind building, inability to improve lavatory facilities due to old and inadequate plumbing into city sewers, sewer gasses released through vents in examinee/employee parking facility as well as in alley.*
- *Examination Center subject to mold conditions in winter as a result of water seepage through concrete cracks in the floor. Examination Center requires extensive renovation to accommodate electronic testing (like facility renovation in Oakland is projected to cost \$500,000).*

According to the DRE, the structural issues above preclude a cost effective renovation of the existing facilities, particularly once increased rent and the cost of a double move are factored into the equation (since the department would need to vacate the premises for between 12-18 months during renovation). Instead, the DRE has begun working with the Department of General Services to identify alternative sites within the city limits—DRE is statutorily required to locate its headquarters—where the two present facilities could be consolidated under one roof. Thus far, the DGS has identified two promising locations in Natomas and estimates the new annual rent at approximately \$2.6 million per year (or about \$1.7 million more than the current rent). The increased costs are driven by: (1) increased market rates since the DRE locked-in its last long-term lease agreement; (2) the amortized cost of tenant improvements; and (3) an additional 6,000 square feet relative to the existing locations (approximately 51,000 square feet versus 45,000 square feet). The DRE indicates that it is hopeful, given the record high vacancy rates in commercial real estate, that the state can create a bidding war and lock in an even lower long-term lease rate by closing a deal in the near future.

**Staff Comments.** Staff does not necessarily dispute the DRE's claim that the existing facilities do not meet the department's long-term needs. However, an additional \$1 million in budget year expenditures (with an increase of at least \$1.5 million annually in the out years) would only increase the magnitude of the structural deficit the department is facing (as discussed above). Although a soft commercial real estate market may present a good opportunity for the state to get a bargain on new office space, the

department has not yet demonstrated that it has the long-term cash flow to support any new expenditure—even if it is a “good deal.” Additionally, staff notes that the department has been conservative in its estimates regarding a real estate market recovery over the next couple of years, and so, by the DRE’s own logic, it does not seem unreasonable to think that the state could still get a good price on new space for the department in a year or two from now—after the RE Fund condition has been addressed.

**Committee Questions.** Based on the comments above, the Committee may wish to ask the following questions:

- Why should the Legislature feel comfortable approving this request given the current condition of the Real Estate Fund?
- What are the pro and cons (costs and benefits) of the department remaining on a month-to-month lease in its existing location until a plan to fix the RE Fund condition is approved?

**Staff Recommendation:** HOLD OPEN pending additional information from the department on how it plans to address the ongoing structural deficit of the Real Estate Fund.

<b><i>Action: Held Open.</i></b>
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## Appendix A

THE SACRAMENTO BEE [sacbee.com](http://sacbee.com)

### Editorial: Cuts in homeless funds shortsighted

Published Sunday, Apr. 12, 2009

After witnessing the rising number of homeless in this state and the tent cities they inhabit popping up in Sacramento and other cities, it would be easy to conclude that nothing works, that homelessness will always be with us.

Then you meet someone like Liana Luna, the 32-year-old former meth addict and mother of three who has been homeless almost all her life. Today, she has a job, a roof over her head, a driver's license and a properly registered car. She pays taxes. As she explained to The Sacramento Bee's editorial board, homeless programs helped turn her life around.

She took advantage of all the assistance Sacramento County and city offered to its homeless: emergency housing, drug treatment, schools for her child, transitional housing, job training and more.

Now that she's on her feet, she worries that these programs that helped lift her out of homelessness are at risk. She's right to worry. They are.

In the last state budget, Gov. Arnold Schwarzenegger blue-penciled \$4 million in Emergency Housing and Assistance Program funding. EHAP funds provide operating assistance to 100 emergency shelters and transitional housing programs in every county in California.

The Fresno Economic Opportunities Commission used \$22,000 in state EHAP funds to capture an additional \$285,000 in federal sources to run one of its transitional living centers.

Locally, the Gathering Inn, South Placer County's only emergency shelter, reports that the governor's cut cost that facility \$38,000 in state funding. The shelter serves approximately 60 men, women and children every day, many of whom are mentally ill. It may be forced to close for 30 days because of the cut.

In his veto message the governor said the \$4 million in emergency shelter funds he had cut was needed to build a rainy-day fund for the state. But as advocates point out, the governor's message ignored the reality that homeless in this state "are already in the midst of a torrential downpour."

It would be unfair to suggest that Schwarzenegger has done nothing. He, along with Sacramento Mayor Kevin Johnson, visited the much-publicized homeless encampment near Sacramento recently. After that visit, the governor worked with city and county

officials to expand the number of beds at the emergency shelter that operates on state property at Cal Expo and to extend operations there to the end of June.

He has also sent a letter to the Obama administration asking the federal government to speed stimulus funds specifically designated to help the homeless in California. Sacramento's share of that money is set at \$2.4 million.

But this kind of ad hoc effort is not enough. Homeless advocates complain that California has not yet completed a statewide homeless plan despite convening a conference on the issue three years ago.

They also note that 10 separate state agencies have responsibility for different aspects of the homeless problem; their efforts are uncoordinated and, as a result, wasteful and ineffective.

Assembly Bill 1177, authored by Assemblyman Paul Fong, D-Santa Clara, would create a California Interagency Council on Homelessness to coordinate planning for the state and to facilitate cross-agency and community cooperation in responding to homelessness. That's a step in the right direction. But more is needed.

The governor should make this issue a priority, not just by showing up at homeless encampments but by doing the hard work of coordination and planning. That work helps to sustain and expand the kinds of programs that transformed Liana Luna from homeless vagrant to taxpaying citizen.